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PA/HO, Department of State

E.O. 12958, as amended

June 9, 2005

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FM ISLAMABAD
TO THE WHITE HOUSE
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FROM: AMBASSADOR FARLAND ISLAMABAD 1114

TO: WHITE HOUSE FOR DR. HENRY KISSINGER

1. IN ACCORDANCE WITH THE SUGGESTION CONTAINED IN YOUR MESSAGE OF JAN. 2, HEREWITH FOLLOWS A WRAP-UP OF THE SITUATION IN PAKISTAN.

2. BHUTTO FACES DIFFICULTIES IN VIRTUALLY EVERY AREA OF NATIONAL ACTIVITY: POLITICAL, BOTH INTERNATIONAL AND DOMESTIC; ECONOMIC; MILITARY; AND SOCIAL. IN THE FIELD OF FOREIGN AFFAIRS, HIS MOST IMMEDIATELY PRESSING PROBLEM IS THE RETURN TO PAKISTAN OF THE 90,000-ODD POW'S AND CIVILIAN INTERNEES FROM THE EAST. INDIA IS UNLIKELY TO RETURN THEM UNTIL THE STATE OF WAR IS ENDED AND A DURABLE TRUCE REPLACES THE CEASE-FIRE. THIS ISSUE LEADS DIRECTLY INTO THAT OF NEGOTIATING WITH INDIA A SETTLEMENT TO END THE STATE OF WAR IN THE WEST; WHICH MAY INCLUDE TERRITORIAL ADJUSTMENTS. THIS, IN TURN, IS RELATED TO THE PROBLEM OF NEGOTIATING WITH BANGLA DESH THE ISSUES CREATED BY SECESSION, INCLUDING A DIVISION OF ASSETS AND DEBTS, A POSSIBLE BIHARI-BENGALI POPULATION EXCHANGE, ETC.; IT IS ALSO RELATED TO THE PARALLEL QUESTION OF RECOGNITION OF BANGLA DESH BY THIRD COUNTRIES AND EVENTUALLY BY PAKISTAN ITSELF.

3. IN DOMESTIC AFFAIRS, BHUTTO'S PROBLEMS FALL INTO FOUR GENERAL CATEGORIES: THOSE STEMMING FROM THE HUMILIATION OF DEFEAT BY INDIA, THOSE DERIVING FROM THE COUNTRY'S SEVERE ECONOMIC PLIGHT AT A TIME OF RISING POPULAR EXPECTATIONS, THOSE BROUGHT ABOUT BY REGIONAL ASPIRATIONS, AND THOSE INVOLVING THE RESTRUCTURING OF POLITICAL POWER. SPECIFIC PROBLEMS IN THESE AREAS INCLUDE (A) CONTAINING SEPARATIST TENDENCIES IN THE NORTHWEST FRONTIER PROVINCES AND BALUCHISTAN; (B) THE QUESTION OF MARTIAL LAW, HOW LONG TO CONTINUE IT IN THE FACE OF GROWING PUBLIC OPPOSITION; AND (C) THE RELATED PROBLEM OF DRAFTING A CONSTITUTION THAT WILL GIVE BHUTTO THE EXECUTIVE POWER HE WILL WANT WITHOUT TOO GREAT AN AFFRONT TO THOSE CALLING FOR DEMOCRACY AND PROVINCIAL AUTONOMY. RELATIONS WITH THE ARMY WILL BE AN ESPECIALLY DIFFICULT ISSUE WHEN THE ARMY'S RE-EQUIPMENT NEEDS ARE BALANCED AGAINST THE EMPTY TREASURY AND THE COST OF THE SOCIAL WELFARE MEASURES BHUTTO HAS PROMISED. A PARALLEL PROBLEM WILL BE THE TREATMENT OF YAHYA IN A MANNER THAT WILL QUIET PUBLIC DEMANDS FOR HIS PUNISHMENT WITHOUT ANTAGONIZING THOSE IN THE SERVICES WHO WOULD NOT WANT A GENERAL --EVEN YAHYA--SUBJECTED TO PUBLIC HUMILIATION. THE BROADEST OF BHUTTO'S PROBLEMS, HOWEVER, IS LIKELY TO BE THAT OF CARRYING OUT THE SOCIAL REVOLUTION THAT HE AND HIS PAKISTAN PEOPLE'S PARTY SUPPORTERS HAVE PROMISED THE PEOPLE, INVOLVING NATIONALIZATION OF SOME INDUSTRIES, EXTENSIVE LAND REFORM, GUARANTEED FULL EMPLOYMENT AND A HOST OF WELFARE MEASURES AT A TIME WHEN POPULAR EXPECTATIONS ARE HIGH BUT THE RESOURCES TO FINANCE THE REVOLUTION ARE NOWHERE IN SIGHT.

4. TO MEET THESE MANIFOLD PROBLEMS, BHUTTO HAS SOME ASSETS. DOMESTICALLY, HE CAN RELY ON HIS OWN POPULARITY WITH THE MASSES; THE SUPPORT OF THE PPP, THE COUNTRY'S MOST POWERFUL POLITICAL PARTY; AND THE FACT THAT EVEN HIS ENEMIES CAN SEE NO ALTERNATIVE TO HIM AT PRESENT. IN THE INTERNATIONAL FIELD HIS ASSETS ARE CONSIDERABLY FEWER. IN THE FORTHCOMING CRUCIAL NEGOTIATIONS, INDIA WILL HOLD MOST OF THE TRUMPS: THE POW'S AN CIVILIAN PRISONERS, MILITARY SUPREMACY, OCCUPIED BORDER AREAS IN THE WEST, A PREDOMINANT INFLUENCE IN DACCA, AND THE ACTIVE SUPPORT OF THE USSR. BHUTTO HAS ONLY THE POLITICAL SUPPORT OF CHINA, SOME OF THE MUSLIM STATES AND (PRESUMABLY) THE US, AND A MEASURE OF INTERNATIONAL SYMPATHY AS THE UNDERDOG WHO HAS JUST LOST HALF HIS COUNTRY.

5. OF PAKISTAN'S MANY ECONOMIC PROBLEMS, THE MOST SERIOUS ARE UNEMPLOYMENT AND ABSENCE OF INVESTMENTS. ABOUT 18 PERCENT OF WEST PAKISTAN'S LABOR FORCE IS EITHER UNEMPLOYED OR UNDEREMPLOYED. HOW TO CREATE JOBS FOR THE UNEMPLOYED IN KEEPING WITH HIS ELECTION CAMPAIGN PROMISES IS PERHAPS THE SINGLE MOST IMPORTANT DOMESTIC TASK FACING BHUTTO. HE MUST IN SOME WAY ALLEVIATE SOME OF THE PRESSURE OF UNEMPLOYMENT IF HE IS TO AVOID SERIOUS STRIKES AND DEMONSTRATIONS IF NOT BROAD CIVIL STRIFE.

6. THE ECONOMY, WHICH HAS STAGNATED FOR THE LAST TWO YEARS IF NOT LONGER, IS UNABLE TO FINANCE THROUGH TRADITIONAL GROWTH THE SOCIAL REFORMS PROMISED BY BHUTTO, INCLUDING THE CHALLENGE OF PROVIDING FULLER EMPLOYMENT. THEREFORE, WE CAN EXPECT BHUTTO TO TURN TO STATE-FINANCED, LABOR-INTENSIVE PROJECTS WHICH WILL PROVIDE QUICK EMPLOYMENT FOR MANY INCLUDING THE UNSKILLED. SUCH PROJECTS CAN IN THE BEGINNING BE DEFICIT FINANCED. IN ORDER TO SUSTAIN DEFICIT SPENDING FOR ANY PROLONGED PERIOD, THE ECONOMY MUST BE PRIMED AND AGAIN SET ON A COURSE OF EXPANSION. IF PAKISTAN'S ECONOMY IS TO BE STIMULATED AND EXPANDED, INVESTMENTS, BOTH PRIVATE AND PUBLIC, MUST BE INCREASED. TO DATE, ALL OF THE ACTIONS TAKEN BY BHUTTO IN THE ECONOMIC FIELD SEEM TO DISCOURAGE RATHER THAN ENCOURAGE VOLUNTARY INVESTMENT.

7. SECONDARY PROBLEMS CLOSELY ASSOCIATED WITH THESE PROBLEMS ARE FOREIGN ASSISTANCE AND INVESTMENT AND NATIONAL RESOURCE MOBILIZATION. WE HEAR THAT THE GOP WOULD LIKE THE CONSORTIUM COUNTRIES AS WELL AS OTHER CREDITORS TO REGULARIZE ITS UNILATERAL DEBT MORATORIUM WHICH EXPIRES JAN. 31, OR WITHIN THE NEXT TWO OR THREE MONTHS BE GIVEN COMMODITY LOAN ASSISTANCE. SUCH ASSISTANCE FROM PAKISTAN'S CREDITORS WOULD RESTORE ITS CREDIT RATING, HELP ITS BALANCE OF PAYMENTS SITUATION, AND STIMULATE ITS ECONOMY. WHETHER OR NOT PAKISTAN CAN PERSUADE ITS CREDITORS TO TAKE THIS ACTION IS NOT KNOWN. FOR POLITICAL REASONS, THERE ARE NO PLANS TO DEVELOP A BUDGET BASED ON WEST PAKISTAN ONLY. UNTIL THIS IS UNDERTAKEN, THERE WILL BE NO ADDITIONAL EFFORTS MADE TO INCREASE GOVERNMENT REVENUES AND PAKISTAN'S VERY WEAK FINANCIAL SITUATION WILL CONTINUE.

8. I MET WITH BHUTTO AT HIS RESIDENCE ON JANUARY 11. NOTHING STARTLING DEVELOPED THEREFROM, BUT DURING THE COURSE OF CONVERSATION HE AGAIN REAFFIRMED HIS APPRECIATION OF USG SUPPORT AND EMPHASIZED GOP NEED FOR ECONOMIC ASSISTANCE DURING THIS CRISIS. THIS CONVERSATION WAS REPORTED IN ISLAMABAD EXDIS 363, AND THE PORTION THEREOF RELATING TO SHEIKH MUJIBUR RAHMAN WAS REPORTED IN ISLAMABAD NODIS 364. IN ADDITION YOU MAY WISH TO PERUSE ISLAMABAD 261, WHICH SUMMARIZED BHUTTO'S FORTNIGHT IN POWER.

WARM REGARDS.

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